

CITY OF STUART
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2020

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City of Stuart

Officials

(Before January 2020)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------------|-------------------------------|---------------------|
| Dick Cook | Mayor | January 1, 2022 |
| Bryan Beldon | Mayor Pro tem | January 1, 2022 |
| James Morgan | Council Member | January 1, 2020 |
| Michael Askren | Council Member | January 1, 2022 |
| Theresa Glass | Council Member | January 1, 2022 |
| Eric Weber | Council Member | January 1, 2020 |
| Ashraf M. Ashour | Administrator/Clerk/Treasurer | Indefinite |
| Brick Gentry, P.C. | Attorney | Indefinite |
| Wild, Baxter & Sand, P.C. | Attorney | Indefinite |

(After January 2020)

| | | |
|---------------------------|-------------------------------|-----------------|
| Dick Cook | Mayor | January 1, 2022 |
| Bryan Beldon | Mayor Pro tem | January 1, 2022 |
| Kristina Renslow | Council Member | January 1, 2024 |
| Michael Askren | Council Member | January 1, 2022 |
| Theresa Glass | Council Member | January 1, 2022 |
| Michael Kalbach | Council Member | January 1, 2024 |
| Ashraf M. Ashour | Administrator/Clerk/Treasurer | Indefinite |
| Brick Gentry, P.C. | Attorney | Indefinite |
| Wild, Baxter & Sand, P.C. | Attorney | Indefinite |

City of Stuart



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stuart, Iowa, (City) as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2020, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2020, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2019 (which is not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the legally separate component units. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of the matter described in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph above, it is inappropriate to, and we do not, express an opinion on the supplementary information.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 28 through 32 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Faller, Kincheloe & Co., PLC". The signature is written in a cursive, flowing style.

FALLER, KINCHELOE & CO., PLC

February 1, 2021

Basic Financial Statements

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2020

| | Disbursements | Program Receipts | | | Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|---|---------------|---------------------|---|---|---|--------------------------|-------------|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities | Total |
| Functions / Programs: | | | | | | | |
| Governmental activities: | | | | | | | |
| Public safety | \$ 662,403 | 179,763 | 80,175 | - | (402,465) | - | (402,465) |
| Public works | 476,930 | 124,979 | 215,487 | - | (136,464) | - | (136,464) |
| Culture and recreation | 204,854 | 38,048 | 22,765 | - | (144,041) | - | (144,041) |
| Community and economic development | 82,750 | - | 5,000 | - | (77,750) | - | (77,750) |
| General government | 484,026 | 115,292 | - | - | (368,734) | - | (368,734) |
| Debt service | 1,771,922 | - | - | 12 | (1,771,910) | - | (1,771,910) |
| Capital projects | 949,977 | - | - | - | (949,977) | - | (949,977) |
| Total governmental activities | 4,632,862 | 458,082 | 323,427 | 12 | (3,851,341) | - | (3,851,341) |
| Business type activities: | | | | | | | |
| Sewer | 413,905 | 389,222 | - | - | - | (24,683) | (24,683) |
| Total business type activities | 413,905 | 389,222 | - | - | - | (24,683) | (24,683) |
| Total | \$ 5,046,767 | 847,304 | 323,427 | 12 | (3,851,341) | (24,683) | (3,876,024) |
| General Receipts and Transfers: | | | | | | | |
| Property and other city tax levied for: | | | | | | | |
| General purposes | | | | | 284,356 | - | 284,356 |
| Debt service | | | | | 30,804 | - | 30,804 |
| Tax increment financing | | | | | 1,847,774 | - | 1,847,774 |
| Local option sales tax | | | | | 203,399 | - | 203,399 |
| Hotel/Motel tax | | | | | 110,114 | - | 110,114 |
| Unrestricted interest on investments | | | | | 3,900 | 3,826 | 7,726 |
| Rent | | | | | 26,700 | - | 26,700 |
| Bond proceeds | | | | | 3,090,000 | - | 3,090,000 |
| Miscellaneous | | | | | 752 | 1,073 | 1,825 |
| Sale of capital assets | | | | | 13,350 | - | 13,350 |
| Transfers | | | | | 225,000 | (225,000) | - |
| Total general receipts and transfers | | | | | 5,836,149 | (220,101) | 5,616,048 |
| Change in cash basis net position | | | | | 1,984,808 | (244,784) | 1,740,024 |
| Cash basis net position beginning of year | | | | | 2,752,796 | 616,811 | 3,369,607 |
| Cash basis net position end of year | | | | | \$ 4,737,604 | 372,027 | 5,109,631 |
| Cash Basis Net Position | | | | | | | |
| Restricted: | | | | | | | |
| Nonexpendable: | | | | | | | |
| Cemetery perpetual care | | | | | \$ 77,537 | - | 77,537 |
| Expendable: | | | | | | | |
| Streets | | | | | 273,617 | - | 273,617 |
| Urban renewal purposes | | | | | 655,067 | - | 655,067 |
| Debt service | | | | | 289,488 | 95,220 | 384,708 |
| Capital projects | | | | | 2,220,524 | - | 2,220,524 |
| Other purposes | | | | | 208,396 | - | 208,396 |
| Unrestricted | | | | | 1,012,975 | 276,807 | 1,289,782 |
| Total cash basis net position | | | | | \$ 4,737,604 | 372,027 | 5,109,631 |

See notes to financial statements.

City of Stuart

Exhibit B

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2020

| | General | Special Revenue Urban Renewal Tax Increment | Debt Service | Capital Projects | Nonmajor | Total |
|---|-------------------|---|------------------|---------------------|----------------|------------------|
| Receipts: | | | | | | |
| Property tax | \$ 203,658 | - | 30,804 | - | 80,699 | 315,161 |
| Tax increment financing | - | 1,847,774 | - | - | - | 1,847,774 |
| Other city tax | 313,513 | - | - | - | - | 313,513 |
| Licenses and permits | 8,954 | - | - | - | - | 8,954 |
| Use of money and property | 27,279 | 2 | 12 | 282 | 2,303 | 29,878 |
| Intergovernmental | 117,764 | - | - | - | 212,565 | 330,329 |
| Charges for service | 329,442 | - | - | - | - | 329,442 |
| Miscellaneous | 107,924 | - | - | 5,000 | 1,345 | 114,269 |
| Total receipts | 1,108,534 | 1,847,776 | 30,816 | 5,282 | 296,912 | 3,289,320 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public safety | 581,512 | - | - | - | 80,891 | 662,403 |
| Public works | 146,347 | - | - | - | 330,583 | 476,930 |
| Culture and recreation | 191,528 | - | - | - | 13,326 | 204,854 |
| Community and economic development | - | 82,750 | - | - | - | 82,750 |
| General government | 401,300 | - | - | - | 82,726 | 484,026 |
| Debt service | - | - | 1,771,922 | - | - | 1,771,922 |
| Capital projects | - | - | - | 949,977 | - | 949,977 |
| Total disbursements | 1,320,687 | 82,750 | 1,771,922 | 949,977 | 507,526 | 4,632,862 |
| Excess (deficiency) of receipts over (under) disbursements | (212,153) | 1,765,026 | (1,741,106) | (944,695) | (210,614) | (1,343,542) |
| Other financing sources (uses): | | | | | | |
| Bond proceeds | - | - | 142,443 | 2,947,557 | - | 3,090,000 |
| Sale of capital assets | 13,350 | - | - | - | - | 13,350 |
| Transfers in | 310,000 | 300,000 | 1,589,645 | - | 50,000 | 2,249,645 |
| Transfers out | (350,000) | (1,674,645) | - | - | - | (2,024,645) |
| Total other financing sources (uses) | (26,650) | (1,374,645) | 1,732,088 | 2,947,557 | 50,000 | 3,328,350 |
| Change in cash balances | (238,803) | 390,381 | (9,018) | 2,002,862 | (160,614) | 1,984,808 |
| Cash balances beginning of year | 1,172,542 | 264,686 | 298,506 | 296,898 | 720,164 | 2,752,796 |
| Cash balances end of year | \$ 933,739 | 655,067 | 289,488 | 2,299,760 | 559,550 | 4,737,604 |
| Cash Basis Fund Balances | | | | | | |
| Nonspendable: | | | | | | |
| Cemetery perpetual care | \$ - | - | - | - | 77,537 | 77,537 |
| Restricted for: | | | | | | |
| Streets | - | - | - | - | 273,617 | 273,617 |
| Urban renewal purposes | - | 655,067 | - | - | - | 655,067 |
| Debt service | - | - | 289,488 | - | - | 289,488 |
| Capital projects | - | - | - | 2,220,524 | - | 2,220,524 |
| Other purposes | - | - | - | - | 208,396 | 208,396 |
| Assigned | - | - | - | 79,236 | - | 79,236 |
| Unassigned | 933,739 | - | - | - | - | 933,739 |
| Total cash basis fund balances | \$ 933,739 | 655,067 | 289,488 | 2,299,760 | 559,550 | 4,737,604 |

See notes to financial statements.

City of Stuart

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2020

| | Enterprise Sewer |
|---|---------------------|
| Operating receipts: | |
| Charges for service | \$ 384,311 |
| Miscellaneous | 4,911 |
| Total operating receipts | <u>389,222</u> |
| Operating disbursements: | |
| Business type activities | 200,269 |
| Total operating disbursements | <u>200,269</u> |
| Excess of operating receipts over operating disbursements | <u>188,953</u> |
| Non-operating receipts (disbursements): | |
| Interest on investments | 3,826 |
| Miscellaneous | 1,073 |
| Debt service | (163,592) |
| Capital projects | (50,044) |
| Net non-operating receipts (disbursements) | <u>(208,737)</u> |
| Exces of disbursements over receipts | (19,784) |
| Transfers out | <u>(225,000)</u> |
| Change in cash balances | (244,784) |
| Cash balances beginning of year | <u>616,811</u> |
| Cash balances end of year | <u>\$ 372,027</u> |
| Cash Basis Fund Balances | |
| Restricted for debt service | \$ 95,220 |
| Unrestricted | <u>276,807</u> |
| Total cash basis fund balances | <u>\$ 372,027</u> |

See notes to financial statements.

City of Stuart

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies

The City of Stuart (City) is a political subdivision of the State of Iowa located in Adair and Guthrie Counties. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides sewer for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationships with the City are significant.

Excluded Component Units

The Stuart Municipal Utilities was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. The Utilities' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Utilities administrative office.

The Stuart Library Foundation was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Stuart Library Foundation is to support the activities of the Stuart, Iowa Public Library.

The Stuart Fire Auxiliary was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Stuart Fire Auxiliary is to support the activities of the Stuart, Iowa Volunteer Fire Department.

The Stuart Fire Boosters, Inc. was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Stuart Fire Boosters, Inc. is to support the activities of the Stuart, Iowa Volunteer Fire Department.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Adair and Guthrie County Assessor's Conference Board, Adair County Landfill Association, Adair and Guthrie County Emergency Management Commissions and the Adair and Guthrie County Joint E911 Service Boards.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2018 assessed property valuations; is for the tax accrual period July 1, 2019 through June 30, 2020 and reflects tax asking contained in the budget certified to the City Council in March 2019.

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2020, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 72.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Notes Receivable

The City has loaned money to two businesses as part of its Urban Renewal Plan. The following loans were outstanding at June 30, 2020 in relation to this program.

- A \$2,325,000 loan was made to Karl Chevrolet of Stuart, LLC (Karl) for the construction of commercial property in the City of Stuart, Iowa. Pursuant to the agreement, Karl agrees to use the completed project as part of its business operations throughout the term and agrees to invest not less than \$10,000,000 into capital improvements for the project. The agreement provides for a minimum assessment agreement of \$7,500,000 as of January 1, 2019. The principal advanced in relation to this loan is due to the City on June 30, 2037, unless it is forgiven prior to this date. Principal on this debt shall be forgiven annually on each May 1 commencing May 1, 2021 and continuing to, and including, May 1, 2037. The amount of loan forgiveness on each forgiveness date is based on a predetermined schedule agreed to between the City and Karl. The principal balance owed on this loan at June 30, 2020 is \$2,325,000.
- A \$30,000 loan was made to Hoosier-Hawk Real Estate Company, LLC (Hoosier-Hawk) for the acquisition and rehabilitation of certain real property in the City for the provision of safe and affordable housing for people of low and moderate income. These properties consist of three houses in the City. The principal advanced in relation to this loan, to Hoosier-Hawk, is due to the City on August 1, 2020, unless it is forgiven prior to this date. Principal on this debt shall be forgiven upon completion of each of the houses being rehabilitated as part of the project. One-third of the loan will be forgiven when each house is rehabilitated and is for sale or rent at a price that is affordable to families of Low and Moderate Income. A total of \$30,000 was forgiven on this loan in the fiscal year. The principal balance owed on this loan at June 30, 2020 is \$0.

The management of the City believes all of the above loans are collectible if the terms of the forgiveness are not met. Both of the above projects were paid for with tax increment financing funds.

(4) Bonds and Notes Payable

A summary of changes in bonds and notes payable for the year ended June 30, 2020 is as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|--|---------------------------------|------------------|------------------|---------------------------|------------------------|
| Governmental activities: | | | | | |
| Direct Placements: | | | | | |
| Annual Appropriation General Obligation Bonds and Notes | \$ 3,081,000 | - | 736,000 | 2,345,000 | 727,000 |
| Annual Appropriation General Obligation Bonds and Notes | 9,680,000 | 3,090,000 | 445,000 | 12,325,000 | 525,000 |
| General Obligation Bonds | 525,000 | - | 95,000 | 430,000 | 35,000 |
| Governmental activities total | <u>\$ 13,286,000</u> | <u>3,090,000</u> | <u>1,276,000</u> | <u>15,100,000</u> | <u>1,287,000</u> |
| Business type activities: | | | | | |
| Direct Borrowings: | | | | | |
| Sewer Revenue Bonds | \$ 682,000 | - | 140,000 | 542,000 | 47,000 |
| Business-type activities total | <u>\$ 682,000</u> | <u>-</u> | <u>140,000</u> | <u>542,000</u> | <u>47,000</u> |

Direct Placements - Annual Appropriation General Obligation Bonds and Notes

A summary of the City's June 30, 2020 direct placements annual appropriation general obligation bonds and notes is as follows:

| Year Ending June 30, | Fire Truck Acquisition Note Issued October 28, 2014 | | | Corporate Purpose Note Issued May 3, 2016 | | |
|----------------------------|--|------------------|--------------|--|---------------------|---------------|
| | Interest | | | Interest | | |
| | Rates | Principal | Interest | Rates | Principal | Interest |
| 2021 | 3.50% | \$ 27,000 | 1,925 | 3.25% | \$ 700,000 | 45,825 |
| 2022 | 3.50% | 28,000 | 980 | 3.25% | 710,000 | 23,075 |
| 2023 | | - | - | | - | - |
| 2024 | | - | - | | - | - |
| 2025 | | - | - | | - | - |
| 2026 | | - | - | | - | - |
| | | <u>\$ 55,000</u> | <u>2,905</u> | | <u>\$ 1,410,000</u> | <u>68,900</u> |

| Year Ending June 30, | Corporate Purpose Note Series 2016A Issued August 11, 2016 | | | Total | | |
|----------------------------|--|-------------------|----------------|------------------|----------------|------------------|
| | Interest | | | Interest | | |
| | Rates | Principal | Interest | Principal | Interest | Total |
| 2021 | 4.00% | \$ - | 35,200 | 727,000 | 82,950 | 809,950 |
| 2022 | 4.00% | - | 35,200 | 738,000 | 59,255 | 797,255 |
| 2023 | 4.00% | 205,000 | 35,200 | 205,000 | 35,200 | 240,200 |
| 2024 | 4.00% | 210,000 | 27,000 | 210,000 | 27,000 | 237,000 |
| 2025 | 4.00% | 230,000 | 18,600 | 230,000 | 18,600 | 248,600 |
| 2026 | 4.00% | 235,000 | 9,400 | 235,000 | 9,400 | 244,400 |
| | | <u>\$ 880,000</u> | <u>160,600</u> | <u>2,345,000</u> | <u>232,405</u> | <u>2,577,405</u> |

The obligations of the City to pay principal of and interest on the bonds are general obligations of the issuer payable from debt service tax revenues and other amounts lawfully available, all to the extent appropriated by the City Council in a fiscal year and subject to the right of the City Council not to appropriate any debt service tax revenues or other amounts lawfully available in any fiscal year.

In the event of nonappropriation by the City, the City's obligations under the bonds shall terminate and become null and void on the last day of the fiscal year for which necessary funds were appropriated and in no event shall such obligations be payable from or be recourse against any properties, assets or revenues of the issuer, the State of Iowa or any other political subdivisions of the State of Iowa and the bondholders shall not have any recourse or right of action against the issuer, the State of Iowa, or any other political subdivision thereof on account of such obligations or any liabilities, or whatsoever nature, arising in connection therewith.

The future principal and interest payment amounts identified in the annual appropriation general obligation bonds and notes column are based on the assumption that the City will appropriate funds every year to meet the above obligations. However, if the City does not appropriate funds for a year, the City's obligations in relation to the bonds and notes principal and interest shall terminate and become null and void on the last day of the fiscal year for which the necessary funds were appropriated.

On October 28, 2014, the City issued \$175,000 of annual appropriation fire truck acquisition note with an interest rate of 3.50% per annum. The note was issued to purchase a fire truck. During the year ended June 30, 2020, the City paid \$26,000 of principal and \$2,835 of interest on the note.

On May 3, 2016, the City issued \$2,885,000 of annual appropriation corporate purpose note with an interest rate of 3.25% per annum. The note was issued to pay the costs of constructing street, sidewalk, water system, sanitary sewer system and stormwater drainage system improvements and installing street lighting and signalization improvements. During the year ended June 30, 2020, the City paid \$710,000 of principal and \$68,900 of interest on the note.

On August 11, 2016, the City issued \$880,000 of annual appropriation corporate purpose note with an interest rate of 4.00% per annum. The note was issued to pay the costs of acquiring and installing street lighting improvements and acquiring, demolishing and restoring dangerous and dilapidated buildings. During the year ended June 30, 2020, the City paid \$0 of principal and \$35,200 of interest on the note.

Annual Appropriation General Obligation Bonds and Notes

A summary of the City's June 30, 2020 annual appropriation general obligation bonds and notes is as follows:

| Year Ending June 30, | Refunding Bonds Series 2017A | | | Corporate Purpose and Refunding Bonds, Series 2017B | | |
|----------------------------|---------------------------------|-------------------|---------------|--|---------------------|------------------|
| | Issued May 31, 2017 | | | Issued November 30, 2017 | | |
| | Interest Rates | Principal | Interest | Interest Rates | Principal | Interest |
| 2021 | 2.50% | \$ 140,000 | 19,025 | 2.10% | \$ 50,000 | 113,830 |
| 2022 | 2.50% | 145,000 | 16,225 | 2.10% | 80,000 | 112,780 |
| 2023 | 2.50% | 150,000 | 12,600 | 3.00% | 115,000 | 111,100 |
| 2024 | 3.00% | 155,000 | 8,850 | 3.00% | 115,000 | 107,650 |
| 2025 | 3.00% | 140,000 | 4,200 | 3.00% | 135,000 | 104,200 |
| 2026-2030 | | - | - | 3.00-3.25% | 1,840,000 | 414,612 |
| 2031-2035 | | - | - | 3.30-3.50% | 1,240,000 | 86,875 |
| 2036-2037 | | - | - | | - | - |
| | | <u>\$ 730,000</u> | <u>60,900</u> | | <u>\$ 3,575,000</u> | <u>1,051,047</u> |

| Year Ending June 30, | Refunding Bond Series 2018 | | | Annual Appropriation Bonds Series 2018A | | |
|----------------------------|-------------------------------|---------------------|----------------|--|---------------------|------------------|
| | Issued May 31, 2018 | | | Issued August 30, 2018 | | |
| | Interest Rates | Principal | Interest | Interest Rates | Principal | Interest |
| 2021 | 3.00% | \$ 310,000 | 77,445 | 3.60% | \$ 25,000 | 104,490 |
| 2022 | 3.00% | 300,000 | 68,145 | 3.60% | 25,000 | 103,590 |
| 2023 | 3.00% | 365,000 | 59,145 | 3.60% | 80,000 | 120,690 |
| 2024 | 2.80% | 380,000 | 48,195 | 3.80% | 80,000 | 99,810 |
| 2025 | 2.90% | 385,000 | 37,555 | 3.80% | 80,000 | 96,770 |
| 2026-2030 | 3.00-3.10% | 865,000 | 40,030 | 4.00-4.45% | 775,000 | 406,641 |
| 2031-2035 | | - | - | 4.55-5.00% | 945,000 | 219,612 |
| 2036-2037 | | - | - | 5.00% | 315,000 | 20,750 |
| | | <u>\$ 2,605,000</u> | <u>330,515</u> | | <u>\$ 2,325,000</u> | <u>1,172,353</u> |

| Year Ending June 30, | Corporate Purpose Bonds Series 2019A | | | Total | | |
|----------------------------|---|---------------------|----------------|-------------------|------------------|-------------------|
| | Issued November 26, 2019 | | | | | |
| | Interest Rates | Principal | Interest | Principal | Interest | Total |
| 2021 | 3.04-3.05% | \$ - | 94,091 | 525,000 | 408,881 | 933,881 |
| 2022 | 3.04-3.05% | - | 94,091 | 550,000 | 394,831 | 944,831 |
| 2023 | 3.04-3.05% | 265,000 | 94,090 | 975,000 | 397,625 | 1,372,625 |
| 2024 | 3.04-3.05% | 260,000 | 86,021 | 990,000 | 350,526 | 1,340,526 |
| 2025 | 3.04-3.05% | 235,000 | 78,104 | 975,000 | 320,829 | 1,295,829 |
| 2026-2030 | 3.04-3.05% | 1,385,000 | 271,459 | 4,865,000 | 1,132,742 | 5,997,742 |
| 2031-2035 | 3.04-3.05% | 945,000 | 86,476 | 3,130,000 | 392,963 | 3,522,963 |
| 2036-2037 | | - | - | 315,000 | 20,750 | 335,750 |
| | | <u>\$ 3,090,000</u> | <u>804,332</u> | <u>12,325,000</u> | <u>3,419,147</u> | <u>15,744,147</u> |

The obligations of the City to pay principal of and interest on the bonds are general obligations of the issuer payable from debt service tax revenues and other amounts lawfully available, all to the extent appropriated by the City Council in a fiscal year and subject to the right of the City Council not to appropriate any debt service tax revenues or other amounts lawfully available in any fiscal year.

In the event of nonappropriation by the City, the City's obligations under the bonds shall terminate and become null and void on the last day of the fiscal year for which necessary funds were appropriated and in no event shall such obligations be payable from or be recourse against any properties, assets or revenues of the issuer, the State of Iowa or any other political subdivisions of the State of Iowa and the bondholders shall not have any recourse or right of action against the issuer, the State of Iowa, or any other political subdivision thereof on account of such obligations or any liabilities, or whatsoever nature, arising in connection therewith.

The future principal and interest payment amounts identified in the annual appropriation general obligation bonds and notes column are based on the assumption that the City will appropriate funds every year to meet the above obligations. However, if the City does not appropriate funds for a year, the City's obligations in relation to the bonds and notes principal and interest shall terminate and become null and void on the last day of the fiscal year for which the necessary funds were appropriated.

On May 31, 2017, the City issued \$1,135,000 of annual appropriation corporate refunding bonds with interest rates ranging from 2.00% to 3.00% per annum. The bonds were issued to current refund the City's outstanding General Obligation Annual Appropriation Capital Loan Notes, Series 2007D, and paying certain costs of issuance related to the Bonds. During the year ended June 30, 2020, the City paid \$140,000 of principal and \$22,525 of interest on the bonds.

On November 30, 2017, the City issued \$3,575,000 of annual appropriation corporate purpose and refunding bonds with interest rates ranging from 2.10% to 3.50% per annum. The bonds were issued to pay the costs of constructing street, sidewalk, water system, sanitary sewer system and stormwater drainage system improvements, install street lighting, advance refund the 2025 maturity of the General Obligation Annual Appropriation Corporate Purpose and Refunding Bonds, Series 2013B, and pay certain costs of issuance related to the Bonds. During the year ended June 30, 2020, the City paid \$0 of principal and \$113,830 of interest on the bonds.

On May 31, 2018, the City issued \$3,220,000 of an annual appropriation refunding bond with interest rates ranging from 2.80% to 3.10% per annum. The bonds were issued to currently refund the City's outstanding General Obligation Annual Appropriation Refunding Bonds, Series 2012A, and pay certain costs of issuance related to the Bond. During the year ended June 30, 2020, the City paid \$305,000 of principal and \$86,595 of interest on the bond.

On August 30, 2018, the City issued \$2,325,000 of annual appropriation bonds with interest rates ranging from 3.60% to 5.00% per annum. The bonds were issued to pay the costs of funding an economic development loan and pay certain costs of issuance related to the Bonds. During the year ended June 30, 2020, the City paid \$0 of principal and \$104,490 of interest on the bonds.

On November 26, 2019, the City issued \$3,090,000 of annual appropriation corporate purpose bonds with interest rates ranging from 3.04% to 3.05% per annum. The bonds were issued to pay the costs of constructing street, water system, sanitary sewer system, storm water drainage and sidewalk improvements, acquiring and installing street lighting, signage and signalization, acquiring and installing electric utility improvements, acquiring and installing natural gas utility, telecommunications utility, cable utility and postal improvements, and to pay certain costs of issuance related to the Bonds. During the year ended June 30, 2020, the City paid \$0 of principal and \$48,352 of interest on the bonds.

Annual Appropriation Corporate Purpose and Refunding Bonds, Series 2017B

In November 2017, the City issued \$3,575,000 of annual appropriation corporate purpose and refunding bonds, Series 2017B for the purpose of paying the costs of public improvements and advance refunding of an older debt tissue. The City entered into an escrow agreement with Wells Fargo Bank, N.A. and deposited \$2,182,796 of the proceeds from the refunding bonds. The bonds were issued to advance refund the outstanding balance of \$1,900,000 annual appropriation corporate purpose and refunding bonds issued August 27, 2013.

The City has defeased the bonds issued August 27, 2013 by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed from the Schedule of Indebtedness. As of June 30, 2020, the amount of defeased debt outstanding but removed from the Schedule of Indebtedness is \$1,500,000.

For the refunding portion of the bond issuance, the City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$348,000 on the refunding.

General Obligation Bonds

A summary of the City's June 30, 2020 general obligation bonds is as follows:

| Year Ending June 30, | Corporate Purpose and Refunding Bonds | | | Total | | |
|----------------------------|---------------------------------------|-------------------|---------------|----------------|---------------|----------------|
| | Issued December 4, 2012 | | | | | |
| | Interest Rates | Principal | Interest | Principal | Interest | Total |
| 2021 | 2.40% | \$ 35,000 | 11,265 | 35,000 | 11,265 | 46,265 |
| 2022 | 2.40% | 35,000 | 10,425 | 35,000 | 10,425 | 45,425 |
| 2023 | 2.40% | 35,000 | 9,585 | 35,000 | 9,585 | 44,585 |
| 2024 | 2.40% | 35,000 | 8,745 | 35,000 | 8,745 | 43,745 |
| 2025 | 2.40% | 40,000 | 7,905 | 40,000 | 7,905 | 47,905 |
| 2026-2030 | 2.40-2.85% | 205,000 | 24,045 | 205,000 | 24,045 | 229,045 |
| 2031 | 2.85% | 45,000 | 1,283 | 45,000 | 1,283 | 46,283 |
| | | <u>\$ 430,000</u> | <u>73,253</u> | <u>430,000</u> | <u>73,253</u> | <u>503,253</u> |

On December 4, 2012, the City issued \$1,255,000 of general obligation corporate purpose and refunding bonds with interest rates ranging from 0.70% to 2.85% per annum. The bonds were issued to pay the costs of constructing street, water system and sanitary sewer system improvements, pay the issuance costs, prepay the principal of the Optional Series 2008B Bonds on the 2014 redemption date, and pay interest due on the Series 2012B Bonds allocated to the refunding of the Optional Series 2008B Bonds through and including the 2014 redemption date. During the year ended June 30, 2020, the City paid \$85,000 of principal and 12,595 of interest on the bonds.

Direct Borrowings – Sewer Revenue Bonds

A summary of the City's June 30, 2020 direct borrowings sewer revenue bonds payable is as follows:

| Year Ending June 30, | Sewer Revenue Bond | | | Total | | |
|----------------------------|-------------------------|-------------------|---------------|----------------|---------------|----------------|
| | Issued December 9, 2009 | | | | | |
| | Interest Rates | Principal | Interest | Principal | Interest | Total |
| 2021 | 3.00% | \$ 47,000 | 16,260 | 47,000 | 16,260 | 63,260 |
| 2022 | 3.00% | 48,000 | 14,850 | 48,000 | 14,850 | 62,850 |
| 2023 | 3.00% | 50,000 | 13,410 | 50,000 | 13,410 | 63,410 |
| 2024 | 3.00% | 51,000 | 11,910 | 51,000 | 11,910 | 62,910 |
| 2025 | 3.00% | 53,000 | 10,380 | 53,000 | 10,380 | 63,380 |
| 2026-2030 | 3.00% | 293,000 | 26,880 | 293,000 | 26,880 | 319,880 |
| | | <u>\$ 542,000</u> | <u>93,690</u> | <u>542,000</u> | <u>93,690</u> | <u>635,690</u> |

Sewer Revenue Bond – 2009

On December 9, 2009, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of sewer revenue capital loan notes of up to \$1,060,000 with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of sewer capital project construction and to pay off an old bond issue.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,770,000 of sewer revenue bonds issued in December 2009. The bonds are payable solely from sewer customer net receipts and are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 86% of net receipts. The total principal and interest remaining to be paid on the bonds is \$635,690. For the current year, principal and interest paid and total customer net receipts were \$161,458 and \$188,953, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (c) A reserve fund should be maintained at an amount of \$94,000.
- (d) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% for the sewer revenue bonds of the amount of principal and interest on the bonds falling due in the same year.

The City did not properly fund the sewer revenue bond sinking account as required.

(5) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.61% of covered payroll and the City contributed 9.91% of covered payroll, for a total rate of 16.52%.

The City's contributions to IPERS for the year ended June 30, 2020 were \$112,714

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the City reported a liability of \$502,670 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the City's proportion was 0.0086807%, which was a decrease of 0.000099% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$140,706, \$126,238 and \$158,151, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

| | |
|--|--|
| Rate of Inflation (effective June 30, 2017) | 2.60% per annum. |
| Rates of salary increase (effective June 30, 2017) | 3.25 to 16.25%, average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 2017) | 7.00% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 2017) | 3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation. |

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumptions study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|--------------------------|------------------|--|
| Domestic equity | 22.0 % | 5.60 % |
| International equity | 15.0 | 6.08 |
| Global smart beta equity | 3.0 | 5.82 |
| Core plus fixed income | 27.0 | 1.71 |
| Public credit | 3.5 | 3.32 |
| Public real assets | 7.0 | 2.81 |
| Cash | 1.0 | (0.21) |
| Private equity | 11.0 | 10.13 |
| Private real assets | 7.5 | 4.76 |
| Private credit | 3.0 | 3.01 |
| Total | 100.0 % | |

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$ 1,143,936 | 502,670 | (34,903) |

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(6) **Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2020, the City contributed \$243,128 and plan members eligible for benefits contributed \$510 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the City and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2020, the following employees were covered by the benefit terms:

| | |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefit payments | - |
| Active employees | <u>14</u> |
| Total | <u><u>14</u></u> |

(7) **Lease**

The City entered into a lease agreement with Stuart Enterprise for Economic Development, Inc. (SEED) for the rental of a City owned building. The lease began in December 2019 and expires on December 31, 2024. The lease terms consist of annual rent of \$25,000. The total amount paid by SEED to the City during the year ended June 30, 2020 was \$25,000.

(8) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2020 is as follows:

| Transfer to | Transfer from | Amount |
|-------------------|-----------------------------|----------------------------|
| General | Special Revenue: | |
| | Urban Renewal Tax Increment | \$ 85,000 |
| | Enterprise: | |
| | Sewer | <u>225,000</u> |
| | | <u>310,000</u> |
| Special Revenue: | | |
| Employee Benefits | General | <u>50,000</u> |
| Special Revenue: | | |
| Urban Renewal | | |
| Tax Increment | General | <u>300,000</u> |
| Debt Service | Special Revenue: | |
| | Urban Renewal Tax Increment | <u>1,589,645</u> |
| | Total | <u><u>\$ 2,249,645</u></u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction or improvement of buildings. For housing related development agreements, each payment represents the incremental property tax received by the City with respect to the incremental value of the property, reduced by the minimum amount required by Section 403.22 of the Code of Iowa. The related low and moderate set aside amount shall be retained by the City for the purpose of providing assistance to low and moderate income families. The remaining total to be paid by the City under the agreements is not to exceed \$2,840,000.

The City rebated \$80,500 during fiscal year 2020. The outstanding balance of the agreements at June 30, 2020 subject to annual appropriation was \$2,840,000 and the amount appropriated for payment in the next fiscal year is \$140,500.

(11) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2020, \$39,266 of property tax was diverted from the City under the urban renewal and economic development agreements.

(12) Commitments

The City has entered into multiple agreements for the construction of infrastructure improvements. As of June 30, 2020, approximately \$951,000 remains to be paid on these projects. These costs will be paid for as work progresses. It is anticipated that these projects will be completed in fiscal year 2021. The City intends to pay for these project costs from existing cash reserves.

The City made a commitment in fiscal year 2020 to borrow \$400,000 from a Taxable General Obligation Cash Flow Loan Agreement. As of June 30, 2020, the City had not borrowed any funds from this loan.

The City entered into an agreement with a private contractor for residential solid waste collection. The agreement is through December 31, 2022. The amount to be paid to the contractor by the City ranges from \$2,575 per month in 2021 to \$2,648 per month in 2022. These rates may also change based on fuel cost and residential growth in the City.

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(13) COVID – 19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the City of Stuart, remains uncertain. To date, the outbreak has not created a material disruption to the operations of the City of Stuart. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the City of Stuart's operations and finances.

(14) Subsequent Events

The City has evaluated all subsequent events through February 1, 2021, the date the financial statements were available to be issued.

(15) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2021. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

Other Information

City of Stuart
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2020

| | Governmental Funds Actual | Proprietary Funds Actual | (Unaudited) Component Unit Stuart Municipal Utilities | Total | Budgetd Amounts | | Final to Total Variance |
|---|---------------------------------|--------------------------------|---|-------------|-----------------|-------------|-------------------------------|
| | | | | | Original | Final | |
| Receipts: | | | | | | | |
| Property tax | \$ 315,161 | - | - | 315,161 | 300,993 | 300,993 | 14,168 |
| Tax increment financing | 1,847,774 | - | - | 1,847,774 | 1,837,390 | 1,837,390 | 10,384 |
| Other city tax | 313,513 | - | - | 313,513 | 269,794 | 269,794 | 43,719 |
| Licenses and permits | 8,954 | - | - | 8,954 | 15,199 | 15,199 | (6,245) |
| Use of money and property | 29,878 | 3,826 | 26,817 | 60,521 | 17,642 | 17,642 | 42,879 |
| Intergovernmental | 330,329 | - | - | 330,329 | 1,876,148 | 1,876,148 | (1,545,819) |
| Charges for service | 329,442 | 384,311 | 3,049,311 | 3,763,064 | 3,970,925 | 3,970,925 | (207,861) |
| Special assessments | - | - | - | - | 4,978 | 4,978 | (4,978) |
| Miscellaneous | 114,269 | 5,984 | 216,834 | 337,087 | 98,537 | 98,537 | 238,550 |
| Total receipts | 3,289,320 | 394,121 | 3,292,962 | 6,976,403 | 8,391,606 | 8,391,606 | (1,415,203) |
| Disbursements: | | | | | | | |
| Public safety | 662,403 | - | - | 662,403 | 582,843 | 804,239 | 141,836 |
| Public works | 476,930 | - | - | 476,930 | 416,757 | 633,757 | 156,827 |
| Culture and recreation | 204,854 | - | - | 204,854 | 157,708 | 354,708 | 149,854 |
| Community and economic development | 82,750 | - | - | 82,750 | 1,837,390 | 1,879,390 | 1,796,640 |
| General government | 484,026 | - | - | 484,026 | 238,664 | 774,664 | 290,638 |
| Debt service | 1,771,922 | - | - | 1,771,922 | 30,750 | 189,977 | (1,581,945) |
| Capital projects | 949,977 | - | - | 949,977 | 1,500,000 | 2,500,000 | 1,550,023 |
| Business type activities | - | 413,905 | 3,317,668 | 3,731,573 | 5,500,575 | 6,100,575 | 2,369,002 |
| Total disbursements | 4,632,862 | 413,905 | 3,317,668 | 8,364,435 | 10,264,687 | 13,237,310 | 4,872,875 |
| Excess (deficiency) of receipts over (under) disbursements | (1,343,542) | (19,784) | (24,706) | (1,388,032) | (1,873,081) | (4,845,704) | 3,457,672 |
| Other financing sources, net | 3,328,350 | (225,000) | (23,206) | 3,080,144 | - | 3,089,998 | (9,854) |
| Change in fund balances | 1,984,808 | (244,784) | (47,912) | 1,692,112 | (1,873,081) | (1,755,706) | 3,447,818 |
| Balances beginning of year | 2,752,796 | 616,811 | 5,380,268 | 8,749,875 | 8,853,666 | 8,853,666 | (103,791) |
| Balances end of year | \$ 4,737,604 | 372,027 | 5,332,356 | 10,441,987 | 6,980,585 | 7,097,960 | 3,344,027 |

See accompanying independent auditor's report.

City of Stuart

Notes to Other Information - Budgetary Reporting

June 30, 2020

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,972,623. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2020, disbursements exceeded the amount budgeted in the debt service function.

City of Stuart

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Six Years*
(In Thousands)

Other Information

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| City's proportion of the net pension liability | 0.008681% | 0.008780% | 0.008556% | 0.009294% | 0.008072% | 0.007150% |
| City's proportionate share of the net pension liability | \$ 503 | 556 | 570 | 585 | 399 | 284 |
| City's covered payroll | \$ 1,073 | 1,028 | 927 | 963 | 899 | 840 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 46.88% | 54.09% | 61.49% | 60.75% | 44.38% | 33.81% |
| IPERS' net position as a percentage of the total pension liability | 85.45% | 83.62% | 82.21% | 81.82% | 85.19% | 87.61% |

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceeding fiscal year.

See accompanying independent auditor's report.

City of Stuart

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Eight Years
(In Thousands)

Other Information

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|----------|-------|-------|-------|-------|-------|-------|-------|
| Statutorily required contribution | \$ 113 | 104 | 95 | 86 | 89 | 84 | 78 | 72 |
| Contributions in relation to the statutorily required contribution | (113) | (104) | (95) | (86) | (89) | (84) | (78) | (72) |
| Contribution deficiency (excess) | \$ - | - | - | - | - | - | - | - |
| City's covered payroll | \$ 1,175 | 1,073 | 1,028 | 927 | 963 | 899 | 840 | 785 |
| Contributions as a percentage of covered payroll | 9.62% | 9.69% | 9.24% | 9.28% | 9.24% | 9.34% | 9.29% | 9.18% |

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

City of Stuart

Notes to Other Information – Pension Liability

Year ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Supplementary Information

City of Stuart

Schedule 1

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2020

| | Special Revenue | | | | | Permanent | |
|---|-----------------|----------------------|---------------|-------------|-----------------------|-------------------------------|-----------|
| | Road Use Tax | Employee Benefits | Library Trust | Fire/Rescue | Special Assessment | Cemetery Perpetual Care | Total |
| Receipts: | | | | | | | |
| Property tax | \$ - | 80,699 | - | - | - | - | 80,699 |
| Use of money and property | - | 219 | 5 | - | 334 | 1,745 | 2,303 |
| Intergovernmental | 212,565 | - | - | - | - | - | 212,565 |
| Miscellaneous | - | - | 15 | 1,330 | - | - | 1,345 |
| Total receipts | 212,565 | 80,918 | 20 | 1,330 | 334 | 1,745 | 296,912 |
| Disbursements: | | | | | | | |
| Operating: | | | | | | | |
| Public safety | - | 80,305 | - | 586 | - | - | 80,891 |
| Public works | 298,760 | 31,823 | - | - | - | - | 330,583 |
| Culture and recreation | - | 13,326 | - | - | - | - | 13,326 |
| General government | - | 82,726 | - | - | - | - | 82,726 |
| Total disbursements | 298,760 | 208,180 | - | 586 | - | - | 507,526 |
| Excess (deficiency) of receipts over (under) disbursements | (86,195) | (127,262) | 20 | 744 | 334 | 1,745 | (210,614) |
| Other financing sources (uses): | | | | | | | |
| Transfers in | - | 50,000 | - | - | - | - | 50,000 |
| Total other financing sources (uses) | - | 50,000 | - | - | - | - | 50,000 |
| Change in cash balances | (86,195) | (77,262) | 20 | 744 | 334 | 1,745 | (160,614) |
| Cash balances beginning of year | 359,812 | 116,902 | 1,815 | 363 | 165,480 | 75,792 | 720,164 |
| Cash balances end of year | \$ 273,617 | 39,640 | 1,835 | 1,107 | 165,814 | 77,537 | 559,550 |
| Cash Basis Fund Balances | | | | | | | |
| Nonspendable: | | | | | | | |
| Cemetery perpetual care | \$ - | - | - | - | - | 77,537 | 77,537 |
| Restricted for: | | | | | | | |
| Streets | 273,617 | - | - | - | - | - | 273,617 |
| Other purposes | - | 39,640 | 1,835 | 1,107 | 165,814 | - | 208,396 |
| Total cash basis fund balances | \$ 273,617 | 39,640 | 1,835 | 1,107 | 165,814 | 77,537 | 559,550 |

See accompanying independent auditor's report.

City of Stuart
Schedule of Indebtedness
Year ended June 30, 2020

Schedule 2

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued | Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---|-------------------|----------------|--------------------------|---------------------------|--------------------|----------------------|---------------------|----------------|-------------------------|
| Annual Appropriation General Obligation Bonds and Notes - | | | | | | | | | |
| Annual appropriation fire truck acquisition note | October 28, 2014 | 3.50% | \$ 175,000 | 81,000 | - | 26,000 | 55,000 | 2,835 | - |
| Taxable annual appropriation corporate purpose note | May 3, 2016 | 3.25% | 2,885,000 | 2,120,000 | - | 710,000 | 1,410,000 | 68,900 | - |
| Annual appropriation corporate purpose note, Series 2016A | August 11, 2016 | 4.00% | 880,000 | 880,000 | - | - | 880,000 | 35,200 | - |
| Annual appropriation refunding bonds, Series 2017A | May 31, 2017 | 2.00-3.00% | 1,135,000 | 870,000 | - | 140,000 | 730,000 | 22,525 | - |
| Annual appropriation corporate purpose and refunding bonds, Series 2017B | November 30, 2017 | 2.10-3.50% | 3,575,000 | 3,575,000 | - | - | 3,575,000 | 113,830 | - |
| Annual appropriation refunding bond, Series 2018 | May 31, 2018 | 2.80-3.10% | 3,220,000 | 2,910,000 | - | 305,000 | 2,605,000 | 86,595 | - |
| Taxable general obligation annual appropriation bonds, Series 2018A | August 30, 2018 | 3.60-5.00% | 2,325,000 | 2,325,000 | - | - | 2,325,000 | 104,490 | - |
| Annual appropriation corporate purpose bonds, Series 2019A | November 26, 2019 | 3.04-3.05% | 3,090,000 | - | 3,090,000 | - | 3,090,000 | 48,352 | - |
| Total | | | | \$12,761,000 | 3,090,000 | 1,181,000 | 14,670,000 | 482,727 | - |
| General Obligation Bonds and Notes - Corporate purpose and refunding bonds | | | | | | | | | |
| | December 4, 2012 | 0.70-2.85% | \$ 1,255,000 | 525,000 | - | 95,000 | 430,000 | 12,595 | - |
| Sewer Revenue Bonds - | | | | | | | | | |
| Sewer Revenue Bond | December 9, 2009 | 3.00% | \$ 1,060,000 | 587,000 | - | 45,000 | 542,000 | 17,610 | - |
| Sewer Revenue Bonds | December 15, 2009 | 2.15-4.05% | 710,000 | 95,000 | - | 95,000 | - | 3,848 | - |
| Total | | | | \$ 682,000 | - | 140,000 | 542,000 | 21,458 | - |

See accompanying independent auditor's report.

City of Stuart

Schedule 3

Bond and Note Maturities

June 30, 2020

| Year Ending June 30, | Annual Appropriation General Obligation Bonds and Notes | | | | | | | | | | | | | | | | |
|-------------------------|---|------------------|---|--------------------|---|-------------------|---|-------------------|--|--------------------|--|--------------------|-------------------------------|--------------------|--|--------------------|-------------------|
| | Annual Appropriation Fire Truck Acquisition Note | | Annual Appropriation Corporate Purpose Note | | Annual Appropriation Corporate Purpose Note | | Annual Appropriation Refunding Bonds | | Annual Appropriation Corporate Purpose and Refunding Bonds | | Annual Appropriation Refunding Bond | | Annual Appropriation Bonds | | Annual Appropriation Corporate Purpose Bonds | | Total |
| | Issued October 28, 2014 | | Issued May 3, 2016 | | Issued August 11, 2016 | | Issued May 31, 2017 | | Issued November 30, 2017 | | Issued May 31, 2018 | | Issued August 30, 2018 | | Issued November 26, 2019 | | |
| | Interest | | Interest | | Interest | | Interest | | Interest | | Interest | | Interest | | Interest | | |
| | Rates | Amount | Rates | Amount | Rates | Amount | Rates | Amount | Rates | Amount | Rates | Amount | Rates | Amount | Rates | Amount | |
| 2021 | 3.50% | \$ 27,000 | 3.25% | \$ 700,000 | - | \$ - | 2.50% | \$ 140,000 | 2.10% | \$ 50,000 | 3.00% | \$ 310,000 | 3.60% | \$ 25,000 | 3.045% | \$ - | 1,252,000 |
| 2022 | 3.50% | 28,000 | 3.25% | 710,000 | - | - | 2.50% | 145,000 | 2.10% | 80,000 | 3.00% | 300,000 | 3.60% | 25,000 | 3.045% | - | 1,288,000 |
| 2023 | - | - | - | - | 4.00% | 205,000 | 2.50% | 150,000 | 3.00% | 115,000 | 3.00% | 365,000 | 3.60% | 80,000 | 3.045% | 265,000 | 1,180,000 |
| 2024 | - | - | - | - | 4.00% | 210,000 | 3.00% | 155,000 | 3.00% | 115,000 | 2.80% | 380,000 | 3.80% | 80,000 | 3.045% | 260,000 | 1,200,000 |
| 2025 | - | - | - | - | 4.00% | 230,000 | 3.00% | 140,000 | 3.00% | 135,000 | 2.90% | 385,000 | 3.80% | 80,000 | 3.045% | 235,000 | 1,205,000 |
| 2026 | - | - | - | - | 4.00% | 235,000 | - | - | 3.00% | 130,000 | 3.00% | 425,000 | 4.00% | 145,000 | 3.045% | 235,000 | 1,170,000 |
| 2027 | - | - | - | - | - | - | - | - | 3.00% | 405,000 | 3.10% | 440,000 | 4.15% | 150,000 | 3.045% | 210,000 | 1,205,000 |
| 2028 | - | - | - | - | - | - | - | - | 3.00% | 365,000 | - | - | 4.25% | 155,000 | 3.045% | 385,000 | 905,000 |
| 2029 | - | - | - | - | - | - | - | - | 3.25% | 375,000 | - | - | 4.35% | 160,000 | 3.045% | 395,000 | 930,000 |
| 2030 | - | - | - | - | - | - | - | - | 3.25% | 565,000 | - | - | 4.45% | 165,000 | 3.045% | 160,000 | 890,000 |
| 2031 | - | - | - | - | - | - | - | - | 3.30% | 400,000 | - | - | 4.55% | 175,000 | 3.045% | 130,000 | 705,000 |
| 2032 | - | - | - | - | - | - | - | - | 3.50% | 415,000 | - | - | 4.65% | 180,000 | 3.045% | 180,000 | 775,000 |
| 2033 | - | - | - | - | - | - | - | - | 3.50% | 425,000 | - | - | 4.75% | 190,000 | 3.045% | 190,000 | 805,000 |
| 2034 | - | - | - | - | - | - | - | - | - | - | - | - | 4.85% | 195,000 | 3.045% | 445,000 | 640,000 |
| 2035 | - | - | - | - | - | - | - | - | - | - | - | - | 5.00% | 205,000 | - | - | 205,000 |
| 2036 | - | - | - | - | - | - | - | - | - | - | - | - | 5.00% | 215,000 | - | - | 215,000 |
| 2037 | - | - | - | - | - | - | - | - | - | - | - | - | 5.00% | 100,000 | - | - | 100,000 |
| | | <u>\$ 55,000</u> | | <u>\$1,410,000</u> | | <u>\$ 880,000</u> | | <u>\$ 730,000</u> | | <u>\$3,575,000</u> | | <u>\$2,605,000</u> | | <u>\$2,325,000</u> | | <u>\$3,090,000</u> | <u>14,670,000</u> |

| General Obligation Bonds and Notes | | | | Sewer Revenue Bonds | | | |
|--|-------------------|-------------------|----------------|----------------------------|-------------------|----------------|--|
| Corporate Purpose and Refunding Bonds | | | | Sewer Revenue Bond | | | |
| Issued December 4, 2012 | | | | Issued December 9, 2009 | | | |
| Year Ending June 30, | Interest Rates | Amount | Total | Interest Rates | Amount | Total | |
| 2021 | 2.40% | \$ 35,000 | 35,000 | 3.00% | \$ 47,000 | 47,000 | |
| 2022 | 2.40% | 35,000 | 35,000 | 3.00% | 48,000 | 48,000 | |
| 2023 | 2.40% | 35,000 | 35,000 | 3.00% | 50,000 | 50,000 | |
| 2024 | 2.40% | 35,000 | 35,000 | 3.00% | 51,000 | 51,000 | |
| 2025 | 2.40% | 40,000 | 40,000 | 3.00% | 53,000 | 53,000 | |
| 2026 | 2.40% | 40,000 | 40,000 | 3.00% | 55,000 | 55,000 | |
| 2027 | 2.85% | 40,000 | 40,000 | 3.00% | 57,000 | 57,000 | |
| 2028 | 2.85% | 40,000 | 40,000 | 3.00% | 59,000 | 59,000 | |
| 2029 | 2.85% | 40,000 | 40,000 | 3.00% | 60,000 | 60,000 | |
| 2030 | 2.85% | 45,000 | 45,000 | 3.00% | 62,000 | 62,000 | |
| 2031 | 2.85% | 45,000 | 45,000 | - | - | - | |
| | | <u>\$ 430,000</u> | <u>430,000</u> | | <u>\$ 542,000</u> | <u>542,000</u> | |

See accompanying independent auditor's report.

City of Stuart

Schedule 4

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Eight Years

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------------------------------|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Receipts: | | | | | | | | |
| Property tax | \$ 315,161 | 323,769 | 545,283 | 737,131 | 803,946 | 664,590 | 703,988 | 744,794 |
| Tax increment financing | 1,847,774 | 1,722,239 | 1,521,087 | 1,129,060 | 901,314 | 1,178,971 | 822,478 | 779,611 |
| Other city tax | 313,513 | 304,135 | 238,168 | 245,574 | 242,277 | 235,120 | 225,398 | 246,220 |
| Licenses and permits | 8,954 | 43,371 | 12,730 | 51,419 | 15,199 | 8,015 | 4,237 | 30,703 |
| Use of money and property | 29,878 | 28,710 | 27,946 | 18,810 | 17,720 | 17,652 | 27,927 | 34,719 |
| Intergovernmental | 330,329 | 324,900 | 260,034 | 253,860 | 823,490 | 669,192 | 380,899 | 470,924 |
| Charges for service | 329,442 | 314,798 | 359,772 | 342,980 | 292,426 | 316,707 | 334,176 | 331,521 |
| Special assessments | - | 283 | 4,978 | 4,916 | 4,863 | 4,884 | 4,467 | 6,113 |
| Miscellaneous | 114,269 | 410,193 | 254,188 | 562,769 | 244,708 | 227,113 | 357,673 | 246,962 |
| Total | \$ 3,289,320 | 3,472,398 | 3,224,186 | 3,346,519 | 3,345,943 | 3,322,244 | 2,861,243 | 2,891,567 |
| Disbursements: | | | | | | | | |
| Operating: | | | | | | | | |
| Public safety | \$ 662,403 | 711,810 | 666,017 | 605,043 | 605,610 | 496,818 | 553,480 | 650,261 |
| Public works | 476,930 | 508,664 | 239,442 | 468,681 | 224,815 | 227,823 | 266,363 | 366,060 |
| Culture and recreation | 204,854 | 166,038 | 179,875 | 190,734 | 177,094 | 162,783 | 155,869 | 162,230 |
| Community and economic development | 82,750 | 157,090 | 113,312 | 280,204 | 505,720 | 210,547 | 952,606 | 589,554 |
| General government | 484,026 | 436,787 | 394,859 | 400,751 | 351,127 | 296,945 | 256,874 | 300,831 |
| Debt service | 1,771,922 | 1,643,812 | 1,630,134 | 2,504,908 | 1,088,398 | 1,048,422 | 2,946,286 | 738,642 |
| Capital projects | 949,977 | 2,682,648 | 893,934 | 3,064,348 | 1,586,107 | 978,622 | 2,025,141 | 1,357,886 |
| Total | \$ 4,632,862 | 6,306,849 | 4,117,573 | 7,514,669 | 4,538,871 | 3,421,960 | 7,156,619 | 4,165,464 |

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stuart, Iowa (City) as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon February 1, 2021. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Stuart Municipal Utilities, Stuart Library Foundation, Stuart Fire Auxiliary and the Stuart Fire Boosters, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items I-A-20, I-B-20, I-C-20, I-D-20, I-E-20 and I-F-20 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

February 1, 2021

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-20 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Generally, one or two individuals have control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

I-B-20 Preparation of Financial Statements

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

City of Stuart

Schedule of Findings

Year ended June 30, 2020

Condition - As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statements and accompanying notes to the financial statements is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the City. The outside party does not have the constant contact with ongoing financial transactions.

Recommendation - We recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statements and accompanying notes to the financial statements internally.

Response - These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion - Response acknowledged.

I-C-20 Receipts

Criteria - A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statement.

Condition - Receipts are not deposited timely by the City. Currently, receipts are deposited to the bank within 2-3 days after receipt.

Cause - City policies do not require and procedures have not been established to ensure all receipts are deposited timely.

Effect - Lack of City policies and procedures resulted in City employees not depositing timely.

Recommendation - The City should establish procedures to ensure all receipts are deposited timely, preferably on a daily basis.

Response - We will attempt to implement this recommendation.

Conclusion - Response acknowledged.

I-D-20 Reconciliation of Ambulance Billings, Collections and Delinquent Accounts

Criteria - An effective internal control system provides for internal controls related to reconciling ambulance billings, collections and delinquent accounts to ensure proper recording of ambulance receipts, the propriety of adjustments and write-offs and the propriety of delinquent accounts.

City of Stuart

Schedule of Findings

Year ended June 30, 2020

Condition – The City does not reconcile ambulance billings, collections and delinquent accounts on a monthly basis.

Cause – Policies have not been established and procedures have not been implemented to ensure monthly ambulance billings, collections and delinquent accounts are reconciled each month.

Effect – Inadequate procedures or controls can result in unrecorded or misstated ambulance receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The City should ensure there is an adequate reconciliation of ambulance billings, collections and delinquent accounts are properly supported.

Response – We will work on implementing this recommendation.

Conclusion – Response acknowledged.

I-E-20 Chart of Accounts

Criteria – An effective internal control system provides for internal controls related to accurate and complete financial reporting.

Condition – The City has not fully implemented the recommended Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee.

Cause – City policies and procedures have not been established to require the use of the Uniform Chart of Accounts.

Effect – Not using a uniform chart account could result in inaccurate or incomplete financial reporting.

Recommendation – To provide better financial information and control, the City should establish policies and procedures to require the use of the recommended Uniform Chart of Accounts, or its equivalent.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

I-F-20 Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatement of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – General obligation debt payments were recorded in the Special Revenue, Urban Renewal Tax Increment Fund, instead of the Debt Service Fund as required by the Code of Iowa. In addition, some property taxes were posted to incorrect funds. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

City of Stuart

Schedule of Findings

Year ended June 30, 2020

Cause – City policies do not require and procedures have not been established to require independent review of financial records to ensure the City's financial records are accurate.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City financial records were necessary.

Recommendation – The City should ensure all general obligation principal and interest payments are made from the Debt Service Fund, and that property taxes are accurately recorded on the City's accounting records.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Stuart

Schedule of Findings

Year ended June 30, 2020

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-20 Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response acknowledged.

- II-B-20 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- II-C-20 Travel Expense - No disbursements of City of Stuart (City) money for travel expenses of spouses of City officials or employees were noted.

- II-D-20 Business Transactions – No business transactions between the City and City officials or employees were noted.

- II-E-20 Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

- II-F-20 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

- II-G-20 City Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

- II-H-20 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

- II-I-20 Revenue Bonds – The sewer revenue bond resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account. We noted that the City did not properly fund a sinking account for the sewer revenue bonds.

Recommendation – The City should implement procedures to ensure the sewer revenue bond sinking account requirements are met.

Response – We will review this situation and take appropriate action.

Conclusion – Response acknowledged.

- II-J-20 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Special Revenue, Urban Renewal Tax Increment Fund. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Special Revenue, Urban Renewal Tax Increment Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

City of Stuart

Schedule of Findings

Year ended June 30, 2020

Response – We will transfer in the future as recommended.

Conclusion – Response acknowledged.

- II-K-20 Bank Interest – Bank interest earned on road use tax funds and cemetery perpetual care funds is currently credited to those funds. The Code of Iowa requires bank interest earned on those funds be credited to the General Fund.

Recommendation – The City should implement procedures to ensure bank interest earned is credited to the appropriate funds, as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- II-L-20 Payroll – Employee timecards are not consistently signed and approved by a supervisor.

Recommendation – The City should implement procedures to ensure all timecards are signed and approved by a supervisor.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- II-M-20 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

We noted the following regarding the City's TIF debt certifications to the County Auditor:

- The City did not certify some TIF indebtedness for debt to be paid from the Special Revenue, Urban Renewal Tax Increment Fund, as required by Chapter 403.19 of the Code of Iowa. Specifically, the City did not certify the total principal and interest payments to be repaid from tax increment financing funds for the General Obligation Corporate Purpose and Refunding Bonds issued on December 4, 2012 in the year of issue.
- Bank interest credited to the Special Revenue, Urban Renewal Tax Increment Fund was not decertified to the County Auditor for the amounts recorded in the fund, as required by the Code of Iowa.

Recommendation – The City should consult TIF legal counsel to determine the disposition of these issues. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa. The City should determine the correct amounts to be certified in the future for debt payments. In addition, the City should decertify interest credited to the Special Revenue, Urban Renewal Tax Increment Fund as required.

City of Stuart

Schedule of Findings

Year ended June 30, 2020

Response – In relation to the General Obligation Corporate Purpose and Refunding Bonds issued on December 4, 2012, we certify the principal and interest due in the next year instead of the entire amount in the year of issue. We feel this is a better way to show the taxpayers why the City is requesting these tax monies. While the interest should have been decertified to the County Auditor, tax financing collections in the future will be adjusted to ensure we only request what is needed to pay the City's obligations.

Conclusion – Response acknowledged.

- II-N-20 Interfund Transfers – While the City's interfund transfers were passed by resolution, there was not a clear statement of the reason or purpose for the transfer, as required by Iowa Administrative Code Section 545-2.1.

Recommendation – The City should implement procedures to ensure compliance with the State of Iowa requirements in relation to interfund transfers.

Response – This provision was new in fiscal year 2019. We will implement this recommendation in the future.

Conclusion – Response acknowledged.

- II-O-20 Ordinance – Ordinance 19-03C-B was passed by the City Council on October 14, 2019, with all three readings passed at the same Council meeting. In order to pass the second and third readings at the same meeting as the first reading of the Ordinance, at least 75% of the Council has to approve of this procedure, pursuant to Chapter 380.3 of the Code of Iowa. Only three of five Council members (or 60%) approved of this procedure. As a result, it does not appear the City could have passed the second and third readings at the same Council meeting as the first reading of the Ordinance. Therefore, it is questionable if ordinance number 19-03C-B is a valid ordinance.

Recommendation – The City work with the City Attorney to determine the propriety of ordinance number 19-03C-B.

Response – We will work with the City Attorney and follow their guidance.

Conclusion – Response acknowledged.

- II-P-20 Construction Change Orders – While the City did approve the construction change orders for the Wambold Addition Phase 2 project, the change orders were only approved as part of the pay estimate. No detail was provided to the City in relation to the change orders. In addition, for the same change order, the change order amounts changed during the project. For example, on pay estimate number 4, change order number 6 was for a \$225 payment amount increase. However, on pay estimate number 5, this same change order number 6 increased the payment amount to \$3,000.

Recommendation – In the future, the City ensure change orders are individually approved by the City Council, and that change orders are not changed by the engineer after City Council approval.

Response – We will work with our engineer on this.

Conclusion – Response acknowledged.

- II-Q-20 Annual Urban Renewal Report – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.